

**SOUTH EASTERN COUNCIL OF GOVERNMENTS**

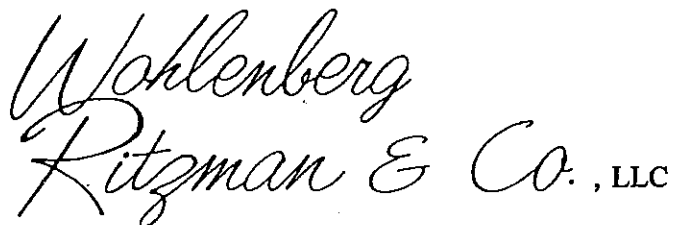
**FINANCIAL STATEMENTS  
(Audited)**

**DECEMBER 31, 2011**

## **SOUTHEAST COUNCIL OF GOVERNMENTS**

### **TABLE OF CONTENTS**

	<b>Page</b>
Independent Auditor's Report. . . . .	1
Basic Financial Statements:	
Statement of Net Assets and Governmental Fund Balance Sheet . . . . .	3
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets . . . . .	4
Statement of Activities and Governmental Fund Revenues, Expenditures, And Changes in Fund Balance . . . . .	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities. . . . .	6
Notes to Financial Statements. . . . .	7
Supplementary Information . . . . .	21
Schedule of Overhead, Salaries and Benefits Expense . . . . .	22
Schedule of Expenditures of Federal Awards . . . . .	23
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> . . . . .	25
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with with OMB Circular A-133. . . . .	27
Schedule of Prior Audit Findings . . . . .	29
Schedule of Audit Findings and Questioned Costs . . . . .	30



certified public accountants

## INDEPENDENT AUDITOR'S REPORT

To the Executive Board of Directors  
South Eastern Council of Governments  
Sioux Falls, South Dakota

We have audited the accompanying financial statements of the governmental activities and each major fund of **South Eastern Council of Governments (SECOG)** as of and for the year ended December 31, 2011, which collectively comprise SECOG's basic financial statements as listed in the table of contents. These financial statements are the responsibility of SECOG's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of South Eastern Council of Governments as of December 31, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### Madison Office

112 South Egan Avenue  
PO Box 505  
Madison, SD 57042  
605-256-9165  
Fax: 605-256-2872

### Yankton Office

207 Douglas Avenue  
PO Box 1018  
Yankton, SD 57078  
605-665-4401  
Fax: 605-665-0592

### Sioux Falls Office

507 West 10th Street  
PO Box 876  
Sioux Falls, SD 57101  
605-336-0372  
Fax: 605-336-6842

### Member of

Private Companies Practice Section  
American Institute of CPAs  
National Associated CPA Firms  
South Dakota Society of CPAs

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2012, on our consideration of South Eastern Council of Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The South Eastern Council of Governments has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Eastern Council of Governments' financial statements as a whole. The accompanying Schedule of Overhead, Salaries and Benefits Expense, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements of South Eastern Council of Governments. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements of South Eastern Council of Governments. The schedule of overhead, salaries and benefits expense, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



May 24, 2012  
Yankton, South Dakota

**SOUTH EASTERN COUNCIL OF GOVERNMENTS**

**STATEMENT OF NET ASSETS  
AND GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2011**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 444,056	\$ -	\$ 444,056
Certificates of deposit	111,496	-	111,496
Receivables:			
Participating agencies - federal	82,454	-	82,454
Grants and contracts	14,918	-	14,918
Other receivables	66,212	-	66,212
Interest	3,362	-	3,362
Prepaid expenses	18,384	-	18,384
Deposits	8,159	-	8,159
Capital assets:			
Capital assets not being depreciated, net	-	90,301	90,301
Capital assets being depreciated, net	-	303,801	303,801
Total capital assets	<u>-</u>	<u>394,102</u>	<u>394,102</u>
Total Assets	<u>\$ 749,041</u>	<u>\$ 394,102</u>	<u>1,143,143</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 3,992	\$ -	3,992
Payable to participating agencies - federal	82,454	-	82,454
Tenant deposits	1,928	-	1,928
Deferred revenue	6,547	-	6,547
Long-term liabilities:			
Portion due or payable within one year:			
Accrued compensated absences	-	18,675	18,675
Portion due or payable after one year:			
Accrued compensated absences	<u>-</u>	<u>20,610</u>	<u>20,610</u>
Total Liabilities	<u>94,921</u>	<u>39,285</u>	<u>134,206</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund Balances:			
Nonspendable - insurance deposit	8,159	(8,159)	-
Assigned - building improvements	100,000	(100,000)	-
Unassigned	<u>545,961</u>	<u>(545,961)</u>	<u>-</u>
Total Fund Balances	<u>654,120</u>	<u>(654,120)</u>	<u>-</u>
Net Assets:			
Invested in capital assets	-	394,102	394,102
Restricted for insurance deposit	-	8,159	8,159
Unrestricted	<u>-</u>	<u>606,676</u>	<u>606,676</u>
Total Net Assets	<u>-</u>	<u>1,008,937</u>	<u>\$ 1,008,937</u>
Total liabilities and fund balance	<u>\$ 749,041</u>	<u>\$ 394,102</u>	

The accompanying notes are an  
integral part of these financial statements

**SOUTH EASTERN COUNCIL OF GOVERNMENTS**

**RECONCILIATION OF THE GOVERNMENTAL FUND  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2011**

Total fund balances for governmental fund \$ 654,120

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 90,301	
Buildings and improvements	384,445	
Equipment	72,162	
Accumulated depreciation	<u>(152,806)</u>	
Total capital assets		394,102

Long-term liabilities applicable to governmental activities are not due and payable in current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Balances at December 31, 2011 are:

Compensated absences	\$ <u>(39,285)</u>	
Total long-term liabilities		<u>(39,285)</u>

Total net assets of governmental activities \$ 1,008,937

The accompanying notes are an  
integral part of these financial statements

# SOUTH EASTERN COUNCIL OF GOVERNMENTS

## STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE YEAR ENDED DECEMBER 31, 2011

	General Fund	Adjustments	Statement of Activities
<b>EXPENDITURES/PROGRAM EXPENSES</b>			
Planning:			
Salaries and fringe benefits	\$ 670,855	\$ 2,457	\$ 673,312
Building expense	32,677	-	32,677
Professional fees	58,979	-	58,979
Travel	15,915	-	15,915
Insurance	8,218	-	8,218
Supplies and materials	9,365	-	9,365
Dues, subscriptions and memberships	3,632	-	3,632
Postage and freight	4,502	-	4,502
Telecommunications	7,928	-	7,928
Auto expense	4,966	-	4,966
Copy machine	1,157	-	1,157
Computer expense	4,985	-	4,985
Advertising and public information	1,272	-	1,272
Office furniture	1,741	-	1,741
Miscellaneous	275	-	275
Participating agency grant expense			
Federal grants	849,704	-	849,704
State grants	89,238	-	89,238
Depreciation	-	35,077	35,077
Capital outlay	7,472	(7,472)	-
	<u>1,772,881</u>	<u>30,062</u>	<u>1,802,943</u>
Total expenditures/program expenses			
	<u>1,772,881</u>	<u>30,062</u>	<u>1,802,943</u>
<b>PROGRAM REVENUES</b>			
Charges for goods and services:			
Member dues	235,983	-	235,983
Other contract revenue	519,584	-	519,584
Participating agencies - state	89,238	-	89,238
Operating grants and contracts:			
SECOG - federal	158,406	-	158,406
Participating agencies - federal	849,704	-	849,704
	<u>1,852,915</u>	<u>-</u>	<u>1,852,915</u>
Total program revenues			
	<u>1,852,915</u>	<u>-</u>	<u>1,852,915</u>
<b>GENERAL REVENUES</b>			
Interest income	4,868	-	4,868
Rental income	50,675	-	50,675
Other general revenue	6,746	-	6,746
	<u>62,289</u>	<u>-</u>	<u>62,289</u>
Total general revenues			
	<u>62,289</u>	<u>-</u>	<u>62,289</u>
Change in fund balances/net assets	142,323	(30,062)	112,261
Fund balances/net assets			
Beginning	511,797	384,879	896,676
Ending	<u>\$ 654,120</u>	<u>\$ 354,817</u>	<u>\$ 1,008,937</u>

The accompanying notes are an  
integral part of these financial statements

**SOUTH EASTERN COUNCIL OF GOVERNMENTS**

**RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

Net change in fund balances - total governmental fund \$142,323

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$35,077) exceeded capital outlay (\$7,472) in the current period. (27,605)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment is the net change in compensated absences. (2,457)

Change in net assets of governmental activities \$ 112,261

The accompanying notes are an  
integral part of these financial statements



## **SOUTH EASTERN COUNCIL OF GOVERNMENTS**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of South Eastern Council of Governments (SECOG) conform to generally accepted accounting principles as applicable to governments.

##### **Nature of Business**

SECOG is a voluntary association of cities and counties within the six county South Eastern South Dakota Region. SECOG was established in 1972 to assist local governments in preparing and causing to be prepared general physical, economic and human resource comprehensive plans containing recommendations for the coordinated, unified, and orderly growth of the entire region. SECOG was established by Executive Order of the Governor #70-7 under the authority granted in Chapter 1-24 of the South Dakota Codified Laws as of 1967. The basic operations of SECOG are financed by federal grants, member dues and other grant and contract revenues.

##### **Reporting Entity**

SECOG's financial statements include the accounts of all SECOG operations. The criteria for including organizations within SECOG's reporting entity, as set forth in GASB No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", primarily include the degree of oversight responsibility maintained by the Executive Board. Examples of oversight responsibility include financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Members of SECOG are Counties and First Class Municipalities located within the following six county region in South Dakota: Clay, Lincoln, McCook, Minnehaha, Turner and Union.

According to the terms of the Joint Cooperative Agreement, the Executive Board, which is the policy making and oversight body for SECOG, is comprised of not more than twenty-one voting members and one non-voting member, who shall act as Chairman. The voting members consist of 11 Joint Cooperative Agreement Members including one from each County in the SECOG region, two members of the Sioux Falls City Council, the Mayors of Brandon, Sioux Falls and Vermillion; eight Private Sector Representatives residing in the SECOG region; and two State Legislators from SECOG's six county region.

SECOG's financial statements do not include the operations of member governments and various local agencies for which grants and funding are issued by SECOG because none of the criteria for inclusion set forth in GASB No. 14 have been met.

## **SOUTH EASTERN COUNCIL OF GOVERNMENTS**

### **NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

##### **Basis of Presentation**

SECOG represents a special purpose organization engaged in a single governmental program that provides member local governments with assistance in planning the growth and expansion of infrastructure and economic and human resources. As such, SECOG presents combined fund financial statements and government-wide statements.

*Government-wide Statements:* The statement of net assets and the statement of activities display information about the reporting entity as a whole. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Net Assets reports all financial and capital resources in a net assets form. Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted, and unrestricted.

The Statement of Activities presents the degree to which direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* Fund financial statements are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. SECOG presently has no proprietary or fiduciary funds.

All of SECOG's activities are accounted for within the General Fund, which is a governmental fund type. GASB 34 sets forth minimum criteria for the determination of major funds. As all activities are accounted for within this fund, it is presented as a major governmental fund described as follows:

General Fund - the General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

## **SOUTH EASTERN COUNCIL OF GOVERNMENTS**

### **NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

##### **Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

##### **Measurement Focus:**

###### *Government-wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

###### *Fund Financial Statements:*

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental and similar fiduciary fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and similar trust funds.

##### **Basis of Accounting:**

###### *Government-wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

###### *Fund Financial Statements:*

All governmental funds and similar fiduciary funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. A 60 day availability period is used for recognition of governmental fund revenues.

## **SOUTH EASTERN COUNCIL OF GOVERNMENTS**

### **NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

##### **Measurement Focus and Basis of Accounting, continued**

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

##### **Capital Assets**

Capital assets include vehicles and equipment that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets acquired under a grant would revert back to the funding source if SECOG ceased to exist. The member jurisdictions shall be entitled to a prorated share of the value of any real or personal property of SECOG after payment of all outstanding obligations. The prorated share is based on the percentage of funds contributed by that jurisdiction in the past five years compared to the total contributed in the past five years by all the member public agencies entitled to a share of the remaining real or personal property.

The accounting treatment over capital assets depends on whether they are reported in the government-wide or fund financial statements.

##### *Government-Wide Statements:*

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 1,000	Straight-line	15-40 yrs.
Machinery and equipment	\$ 1,000	Straight-line	3-5 yrs.

##### *Fund Financial Statements*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. No depreciation expense is recognized.

## **SOUTH EASTERN COUNCIL OF GOVERNMENTS**

### **NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

##### **Long-Term Liabilities**

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences.

Long-term liabilities for the governmental fund are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payment of principal and interest reported as expenditures.

##### **Compensated Absence**

Regular, full-time employees accrue annual leave at up to five hours per pay period and regular, part-time employees receive a prorated share. Annual leave is accrued proportionally, and will be reduced in any period in which the employee is paid for less than a full paid period. Employees may accumulate annual leave, without limitation, provided that any unused annual leave hours remaining in an employee's accumulated balance in excess of 240 hours on December 31 of each year shall be forfeited. Under no circumstances will payment be made for accumulated leave in excess of 240 hours.

Sick leave is accrued by eligible employees at four hours per pay period for regular, full-time employees and is prorated for regular part-time employees. Sick leave is accrued proportionally, and will be reduced in any period in which the employee is paid for less than a full paid period. Sick leave may accrue without limit. Accumulated sick leave is not paid out upon termination of employment. Accordingly, sick pay is charged to expenditures when taken, and no accrual is made for unused sick leave.

##### **Program Revenues**

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than SECOG's taxpayers or citizenry, as a whole.

1. Charges for services – member dues – All member governments are required to pay dues to SECOG in order to belong to the organization and receive membership services. Dues are determined by census results and are recognized as revenues when assessed because they are measurable and collectible within the current period.

## **SOUTH EASTERN COUNCIL OF GOVERNMENTS**

### **NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

##### **Program Revenues, continued**

2. Charges for services -- other contract revenues -- These are program specific operating grants and contracts from other than federal sources.
3. Federal grants and contracts -- These are program specific operating grants arising from mandatory and voluntary non-exchange transactions with other governments which fund SECOG's programs. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the providers have been met. Such revenue is subject to review by the funding agency. Minor adjustments may result in subsequent periods.

##### **Equity Classifications**

###### *Government-wide Statements:*

Equity is classified as net assets and is displayed in three components

1. Invested in capital assets, net of related debt -- Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets -- Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets -- All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

###### *Fund Financial Statements:*

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components.

##### **Application of Net Assets**

It is SECOG's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are avail

## **SOUTH EASTERN COUNCIL OF GOVERNMENTS**

### **NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

##### **Fund Balance Classification Policies and Procedures**

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, SECOG classifies governmental fund balances as follows:

1. **Nonspendable** – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
2. **Restricted** – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
3. **Committed** – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
4. **Assigned** – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the by the Executive Board.
5. **Unassigned** – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

SECOG uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, SECOG would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

SECOG does not have a formal minimum fund balance policy.

##### **Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

## **SOUTH EASTERN COUNCIL OF GOVERNMENTS**

### **NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011**

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

##### **Deferred Revenue**

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

#### **2. DEPOSITS AND INVESTMENTS**

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

**Deposits** - Deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

**Investments** - In general, SDCL 4-5-6 permits funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

**Custodial Credit Risk – Deposits** – The risk that, in the event of a depository failure, SECOG's deposits may not be returned to it. SECOG does not have a deposit policy for custodial credit risk. As of December 31, 2011, SECOG's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

**Investments** – As of December 31, 2011, SECOG had no investments.



## SOUTH EASTERN COUNCIL OF GOVERNMENTS

### NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

#### 2. DEPOSITS AND INVESTMENTS, continued

**Authorized Investments** – SECOG has adopted an investment policy that allows investment of SECOG's funds only in checking accounts, savings accounts, certificates of deposit, and money market accounts with qualified FDIC and NCUA public depositories within the SECOG region.

**Investment Interest Rate Risk, Credit Risk and Concentration of Credit Risk** – SECOG's investment policy has limited investment of funds to deposits in insured financial institutions and is not exposed to these investment risks.

#### 3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements.

Receivables are primarily due from various grants and programs. Management anticipates collecting the receivables from these programs, therefore, no allowance for doubtful accounts has been provided for these receivables.

Grants receivable consist of receivables for reimbursement of expenditures under various programs and grants. All amounts are expected to be collected within the next year. A summary of grants receivable as of December 31, 2011, is as follows:

Grants receivable – participating agencies:

Federal Highway	\$ 71,016
Federal Transit	<u>11,438</u>
	<u>\$ 82,454</u>

Grants receivable – SECOG:

Federal Highway	\$ 4,896
Federal Transit	9,163
SDHDA - HOME	<u>859</u>
	<u>\$ 14,918</u>

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of SECOG. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although SECOG expects such amounts, if any, to be immaterial.

# SOUTH EASTERN COUNCIL OF GOVERNMENTS

## NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

### 4. LEASING ACTIVITIES

SECOG has entered into lease receivable agreements with three tenants for rental of office space. One tenant leases two suites with a one year term, totaling \$675 monthly. The other two tenants' leases are long-term and will expire on December 31, 2012, and March 31, 2014. SECOG received \$50,675 in rental income under these leases during the year ended December 31, 2011.

The following is a schedule, by year, of minimum lease payments receivable for the tenants with long-term leases as of December 31, 2011:

Year	
2012	\$ 43,884
2013	17,430
2014	<u>4,358</u>
Total	<u>\$ 65,672</u>

### 5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2011, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 90,301	\$ -	\$ -	\$ 90,301
Construction in progress	<u>7,147</u>	<u>-</u>	<u>(7,147)</u>	<u>-</u>
Total capital assets not being depreciated	<u>97,448</u>	<u>-</u>	<u>(7,147)</u>	<u>90,301</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	369,826	14,619	-	384,445
Equipment	<u>72,162</u>	<u>-</u>	<u>-</u>	<u>72,162</u>
Total capital assets being depreciated	<u>441,988</u>	<u>14,619</u>	<u>-</u>	<u>456,607</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	73,327	27,086	-	100,413
Equipment	<u>44,402</u>	<u>7,991</u>	<u>-</u>	<u>52,393</u>
Total capital assets being depreciated	<u>117,729</u>	<u>35,077</u>	<u>-</u>	<u>152,806</u>
Total capital assets being depreciated, net	<u>324,259</u>	<u>(20,458)</u>	<u>-</u>	<u>303,801</u>
Governmental activities capital assets, net	<u>\$ 421,707</u>	<u>\$ (20,458)</u>	<u>\$ (7,147)</u>	<u>\$ 394,102</u>

# **SOUTH EASTERN COUCL OF GOVERNMENTS**

## **NOTES TO FINANCIAL STATEMENTS - continued** **DECEMBER 31, 2011**

### **6. LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities for the year ended December 31, 2011, is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Witin One Year</u>
<i>Governmental activities:</i>					
Compensated absences	\$ 36,828	\$ 11,983	\$ (9,526)	\$ 39,285	\$ 18,675
Total	<u>\$ 36,828</u>	<u>\$ 11,983</u>	<u>\$ (9,526)</u>	<u>\$ 39,285</u>	<u>\$ 18,675</u>

### **7. DEFERRED REVENUE**

Deferred revenue consists of prepaid membership dues and rent.

### **8. RESTRICTED NET ASSETS**

As of December 31, 2011, net asset restrictions as shown on the Statement of Net Assets are for an insurance deposit in the amount of \$8,159, the access of which is controlled by the South Dakota Public Assurance Alliance.

### **9. ALLOCATION OF FRINGE BENEFITS AND INDIRECT COSTS**

SECOG fringe benefits and indirect costs are based on actual expenditures determined in accordance with the U.S. Office of Management and Budget (OMB) *Circular A-87 Cost Principles for State, Local, and Tribal Governments*. Fringe benefits are allocated to grants as a percentage of SECOG salaries and wages. Indirect costs represent the administrative burden of SECOG, and are allocated as a percentage of direct salaries and fringe benefits.

The rate used for fringe benefits for the year ended December 31, 2011, was 47.62%. The indirect cost rate for the year ended December 31, 2011, was 13.51%.

SECOG operations consist of general operations and participating agency grants that are accounted for within the general fund. The allocation of fringe benefits and indirect costs refers to allocations in connection with specific grants and contracts.

## **SOUTH EASTERN COUNCIL OF GOVERNMENTS**

### **NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011**

#### **10. DEFERRED COMPENSATION PLAN**

SECOG previously offered all full-time permanent employees a deferred compensation plan administered by the International City Management Association Retirement Corporation. The plan was created in accordance with Internal Revenue Code Section 457. Under the plan, employees deferred a portion of their salary until future years. Internal Revenue Code Section 457, as amended, requires deferred compensation amounts to be held in trust for the exclusive benefit of the employee. As such, plan assets are protected from claims on SECOG and from any use by SECOG other than paying benefits in accordance with the plan. As of July 1, 2003, SECOG no longer matched the employee's contribution.

#### **11. RETIREMENT PLAN**

SECOG became a member of the South Dakota Retirement System (SDRS) on July 1, 2003.

All regular, full-time and part-time employees participate in the SDRS, a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. SECOG's share of contributions to the SDRS for the fiscal years ended December 31, 2011, 2010 and 2009 were \$31,083, \$27,672 and \$24,699, respectively, equal to the required contributions each year.

#### **12. SIGNIFICANT COMMITMENTS**

In December 2011, SECOG's Executive Board of Directors passed a resolution to provide the South Eastern Development Foundation (SEDF) a maximum of 50% of the matching funds required for a Community Development Financial Institution grant, in an amount not to exceed \$125,000. Funds will only be transferred when SEDF has been notified that the grant has been awarded.

## **SOUTH EASTERN COUNCIL OF GOVERNMENTS**

### **NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011**

#### **13. RISK MANAGEMENT**

SECOG is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2011, SECOG managed its risks as follows:

##### **Employee Health Insurance**

SECOG purchases health insurance for its employees from a commercial carrier.

##### **Liability and Property Insurance**

SECOG joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. SECOG's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against SECOG. SECOG pays an annual premium to the pool to provide coverage for general liability, property coverage, auto liability and damage, and errors and omissions of public officials. The agreement with the South Dakota Public Assurance Alliance provides that the liability coverage will be provided up to \$1,000,000. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. SECOG carries a \$500 deductible for the official liability coverage.

A portion of the member premiums are also allocated to a cumulative reserve fund. SECOG would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve on the following formula:

End of the First Full Year	50%
End of the Second Full Year	60%
End of the Third Full Year	70%
End of the Fourth Full Year	80%
End of the Fifth Full Year	90%
End of the Sixth Full Year and Thereafter	100%

As of December 31, 2011, SECOG has a vested balance in the cumulative reserve fund of \$8,159.

SECOG does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

## **SOUTH EASTERN COUNCIL OF GOVERNMENTS**

### **NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011**

#### **13. RISK MANAGEMENT, continued**

##### **Worker's Compensation**

SECOG joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. SECOG's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. SECOG pays an annual premium, to provide worker's compensation coverage to its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date to the Fund Members. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to \$1,675,000 per individual per incident.

SECOG does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

##### **Unemployment Benefits**

SECOG provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

## SUPPLEMENTARY INFORMATION

**SOUTH EASTERN COUNCIL OF GOVERNMENTS**

**SCHEDULE OF OVERHEAD, SALARIES AND BENEFITS EXPENSE  
YEAR ENDED DECEMBER 31, 2011**

	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
Total salaries	<u>\$ 372,120</u>	<u>\$ 114,324</u>	<u>\$ 486,444</u>
Percent of total	<u>76.50%</u>	<u>23.50%</u>	
<b>Fringe Benefits:</b>			
Holiday, vacation, sick and administrative leave			\$ 57,557
Retirement expense			31,083
Social Security, Medicare and Unemployment			38,848
Dental, health and self funded deduction			59,380
Total fringe benefits before carry forward	\$ 142,954	\$ 43,914	186,868
Over (under) recovered fringe benefit costs for Year Ended 2011 (calculated below)	34,250	10,527	44,777
Carry Forward - over recovered from 2009 (from Audit Report)	(8,586)	(3,449)	(12,035)
Total Fringe Benefit Costs	<u>\$ 168,618</u>	<u>\$ 50,992</u>	<u>\$ 219,610</u>
<b>Fringe Benefits Distribution:</b>			
Salaries	\$ 372,120	\$ 114,324	\$ 486,444
Fringe Benefit Rate applied to 2011	47.62%	47.62%	
Fringe Benefit Costs Recovered	177,204	54,441	\$ 231,645
Actual Fringe Benefit Costs (based on Percent of Total Salaries)	142,954	43,914	186,868
Over (Under) Recovered Fringe Benefit Costs	<u>\$ 34,250</u>	<u>\$ 10,527</u>	<u>\$ 44,777</u>
Salaries	\$ 372,120	\$ 114,324	\$ 486,444
Benefits	168,618	50,992	219,610
Total salaries and benefits	<u>\$ 540,738</u>	<u>165,316</u>	<u>\$ 706,054</u>
<b>Reimbursable Overhead:</b>			
Accounting, legal and professional fees		13,296	
Advertising and public information		573	
Building expense		32,677	
Auto expense		4,966	
Computer hardware		86	
Computer software		4,899	
Copy machine		1,157	
Dues, subscriptions and memberships		3,382	
Insurance		8,218	
Office furniture and equipment		1,741	
Postage and freight		4,502	
Professional development		-	
Staff travel		6,580	
Supplies and materials		7,906	
Telecommunications		7,134	
Miscellaneous		275	
Total indirect general and administrative expenses		97,392	
Depreciation		35,077	
Total indirect general and administrative expenses plus depreciation		132,469	
Total overhead before carry forward		297,785	
Over (under) recovered for Year Ended 2010		(224,731)	
Carry forward from 2009		(222,292)	
Total Indirect Costs		<u>\$ (149,238)</u>	
Direct salaries	\$ 372,120		
Fringe benefits (based on percentage of total direct)	168,618		
Direct salaries and fringe	<u>\$ 540,738</u>		
Indirect Cost Rate applied to 2011	13.51%		
Indirect costs recovered		\$ 73,054	
Actual indirect costs		297,785	
Over (Under) Recovered Costs for 2011		<u>\$ (224,731)</u>	

See Independent Auditor's Report



**SOUTH EASTERN COUNCIL OF GOVERNMENTS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2011**

FEDERAL FUNDING/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA Number	Contract/ Grant Number	Expenditures/Disbursements		
			SECOG	Agencies	Total
<u>U.S. Department of Transportation</u>					
Passed through the State of South Dakota					
Department of Transportation					
Highway Planning and Construction (Federal Aid Highway Program) - (Note 2)	20.205				
FHWA		311113	\$ 65,319	\$ 758,961	\$ 824,280
GPS/GIS Automated Mapping/Inventory		311116	7,680	-	7,680
Total			72,999	758,961	831,960
Federal Transit Metropolitan Planning Grants (FTA) - (Note 3)	20.505	311113	21,673	90,743	112,416
Total U.S. Department of Transportation			94,672	849,704	944,376
<u>U.S. Department of Commerce</u>					
Direct Funding					
Economic Development Support For Planning Organizations	11.302				
Economic Development Administration		05-83-04948	61,000	-	61,000
Total U.S. Department of Commerce			61,000	-	61,000
<u>U.S. Department of Housing and Urban Development</u>					
Passed through the South Dakota Housing Development Authority					
Home Investment Partnerships Program	14.239		2,734	-	2,734
Total U.S. Department of Housing and Urban Development			2,734	-	2,734
Total Federal Funding			\$ 158,406	\$ 849,704	\$ 1,008,110

## **SOUTH EASTERN COUNCIL OF GOVERNMENTS**

### **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - continued YEAR ENDED DECEMBER 31, 2011**

- Note 1: The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of SECOG and is presented on the modified accrual/full accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
- Note 2: For the FHWA program, SECOG and participating agencies were reimbursed for eligible costs at the rate of 81.95%. Amounts reflected represent the 81.95% portion.
- Note 3: For the FTA program, participating agencies were reimbursed for eligible costs at the rate of 80% through March 6, 2011. On March 7, 2011, the reimbursed rate was increased to 81.95%. Amounts reflected represent the 80% or 81.95% portion as appropriate.
- Note 4: Participating agencies included the City of Sioux Falls, City of Harrisburg, City of Tea, and Minnehaha County, all in South Dakota.



certified public accountants

INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Executive Board of Directors  
South Eastern Council of Governments  
Sioux Falls, South Dakota

We have audited the financial statements of the governmental activities and each major fund of South Eastern Council of Governments (SECOG) as of and for the year ended December 31, 2011, which collectively comprise SECOG's basic financial statements and have issued our report thereon dated May 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of SECOG is responsible for establishing and maintain effective internal control over financial reporting. In planning and performing our audit, we considered SECOG's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SECOG's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SECOG's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

- 25 -

**Madison Office**

112 South Egan Avenue  
PO Box 505  
Madison, SD 57042  
605-256-9165  
Fax: 605-256-2872

**Yankton Office**

207 Douglas Avenue  
PO Box 1018  
Yankton, SD 57078  
605-665-4401  
Fax: 605-665-0592

**Sioux Falls Office**

507 West 10th Street  
PO Box 876  
Sioux Falls, SD 57101  
605-336-0372  
Fax: 605-336-6842

**Member of**

Private Companies Practice Section  
American Institute of CPAs  
National Associated CPA Firms  
South Dakota Society of CPAs

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

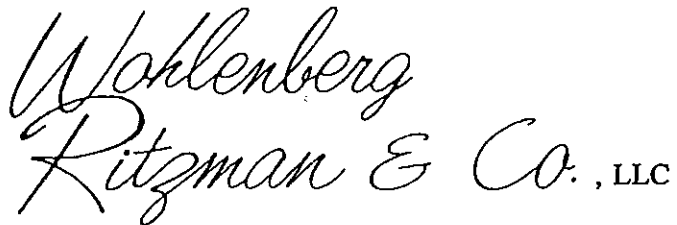
As part of obtaining reasonable assurance about whether SECOG's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of SECOG in a separate letter dated May 24, 2012.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, and the governing board and management of SECOG and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 §\_\_.320, this report is matter of public record and its distribution is not limited.

A handwritten signature in cursive script, reading "Wehler & Co., LLP".

May 24, 2012  
Yankton, South Dakota



certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD  
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Executive Board of Directors  
South Eastern Council of Governments  
Sioux Falls, South Dakota

Compliance

We have audited the compliance of South Eastern Council of Governments (SECOG) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that that could have a direct and material effect on SECOG's major federal program for the year ended December 31, 2011. SECOG's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of SECOG's management. Our responsibility is to express an opinion on the SECOG's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about SECOG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on SECOG's compliance with those requirements.

In our opinion, SECOG has complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

- 27 -

**Madison Office**

112 South Egan Avenue  
PO Box 505  
Madison, SD 57042  
605-256-9165  
Fax: 605-256-2872

**Yankton Office**

207 Douglas Avenue  
PO Box 1018  
Yankton, SD 57078  
605-665-4401  
Fax: 605-665-0592

**Sioux Falls Office**

507 West 10th Street  
PO Box 876  
Sioux Falls, SD 57101  
605-336-0372  
Fax: 605-336-6842

**Member of**

Private Companies Practice Section  
American Institute of CPAs  
National Associated CPA Firms  
South Dakota Society of CPAs

## Internal Control Over Compliance

Management of SECOG is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered SECOG's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the SECOG's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, and the governing board and management of SECOG and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 §\_\_.320, this report is matter of public record and its distribution is not limited.

*Wohlschlag Bergman & Co., LLC*

May 24, 2012  
Yankton, South Dakota

**SOUTH EASTERN COUNCIL OF GOVERNMENTS**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2011**

**PRIOR FEDERAL COMPLIANCE AUDIT FINDINGS**

The prior audit report contained no written major federal compliance audit findings.

**PRIOR OTHER AUDIT FINDINGS**

The prior audit report contained no written other audit findings.

**SOUTH EASTERN COUNCIL OF GOVERNMENTS**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2011**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses \_\_\_\_\_ yes X none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses \_\_\_\_\_ yes X none reported

Type of auditor's report issued on compliance for major programs Unqualified

Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 \_\_\_\_\_ yes X no

Identification of major programs:

CFDA Numbers  
20.205

Name of Federal Program or Cluster  
Highway Planning and Construction (Federal Aid Highway Program)

Dollar Threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? X yes \_\_\_\_\_ no



**SOUTH EASTERN COUNCIL OF GOVERNMENTS**

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS - continued  
DECEMBER 31, 2011**

**SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT**

There are no financial statement audit findings reported.

**SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

There are no major federal award program findings reported.